






# ONECRAFT

LIMITED

## ANNUAL REPORT 1976



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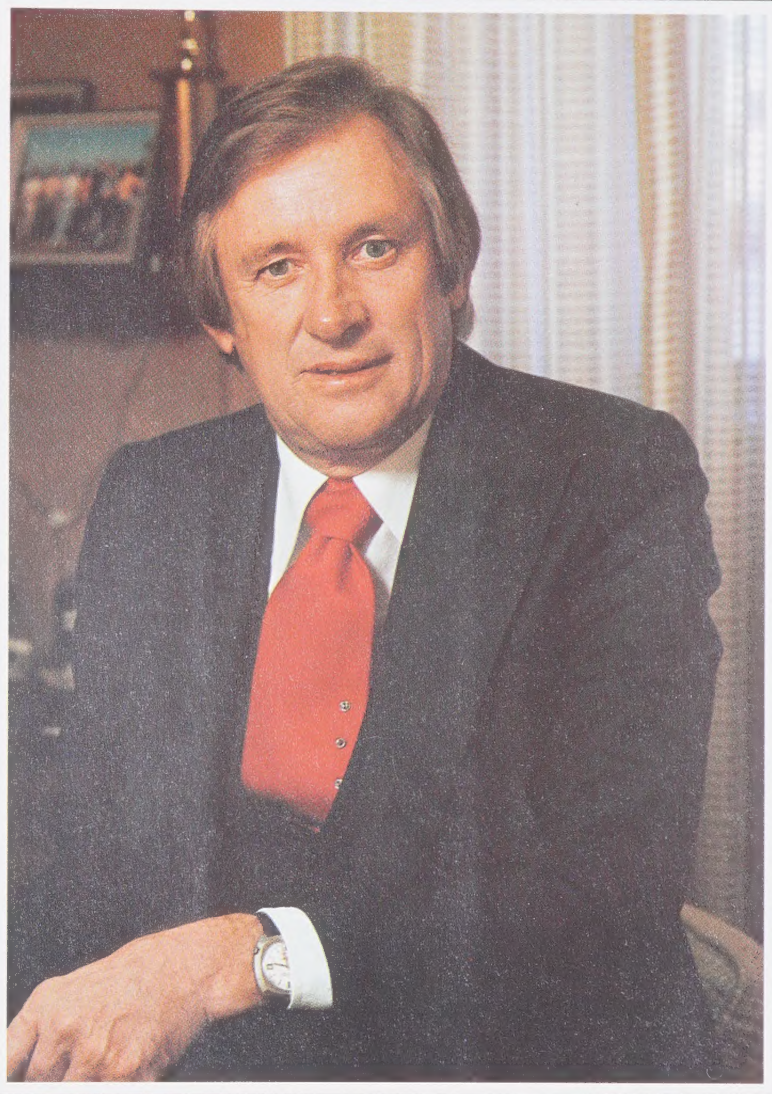
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## To Our Shareholders

We are pleased to present to you our Annual Report for the year ending December 31, 1976, the results of which have once again shown an increase in both sales and profit, making 1976 the best year in Tonecraft's history. Gross operating revenues were \$27,851,000, up 27% over the 1975 figures which were \$21,940,000. Net earnings rose to \$1,006,000, an increase of 9% over the \$918,000 earned in 1975. The year 1976 saw bank interest rates running higher than had been expected, which had a lowering effect on our earnings. However, it appears at this time, that in 1977 we will enjoy a lower interest rate on our bank interest loans.

During 1976 we opened 7 new retail paint and decorating centres: 5 in Ontario, 1 in Quebec and 1 in Nova Scotia. We also closed 4 small stores and relocated 3 stores into new, larger premises, giving us a net total of 84 Color Your World decorating centres. We plan to continue with our expansion program and during 1977 we are anticipating that we will open an additional 5 new stores.



On April 21st, 1976, your Board of Directors approved an increase of our quarterly cash dividend rate from \$.02 to \$.03 per share on the common stock, this represented an increase of 50% over the previous rate.

I wish to extend a special thanks, on behalf of the Board of Directors to all of our Associate Dealers and employees for their help in making the year 1976 a success.

A handwritten signature in dark ink, reading "B.F. Strongman". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

B.F. Strongman  
Executive Vice-President & Secretary-Treasurer



## Report on Operations

Tonecraft Limited is a major manufacturer of commercial paints and wallpaper which it sells exclusively through its chain of Color Your World retail outlets to the do-it-yourself homeowner and directly to the professional painting contracting trade through a national sales force. The company has grown into a retail chain of eighty-four home decorating stores coast to coast in Canada. Paint manufacturing facilities are located in Toronto, Ontario and Vancouver, B.C. In 1974 a major manufacturing facility was added to our Toronto plant to manufacture wallcoverings. Head offices are located in Toronto with a regional office for Tonecraft B.C. located in Vancouver.

Tonecraft's manufacturing divisions produce over 50 different lines of paint products and four lines of wallcoverings. As one of Canada's most automated and efficient producers of paints, Tonecraft manufactures over 90% of its paint products under the Color Your World trademark — the remaining 10% representing specialty items that are sold in such small quantities as to be unprofitable for us to produce. During 1976 we commenced manufacturing a completely new Universal Colorant system specifically formulated for use with our paint products. The formulation of these new Universal Colorants and the development of a unique manufacturing process now enable us to effect cost savings through complete in-house production of our paint products.



Our manufacturing facilities were also expanded in our wallcoverings division with the addition of a second roto-gravure printing press to increase our capacity due to strong consumer demand for our wallcovering products in Canada and anticipated growth in the United States market.

Tonecraft's unique position as a marketing and distribution company, manufacturing its own products, allows us to exert strong controls on costs and maintain rigid quality control standards for our products.

Our extensive Research and Development Department and facilities are responsible for developing products that will meet the needs of an ever changing consumer market, in both our major product categories — paint and wallpaper.



The major efforts during 1976 have been the development of a completely new, high quality wallcovering which has outstanding aesthetic and application characteristics as well as being the only totally dry-strippable, pure vinyl wallcovering of its type in North America.

Further developments in wallcoverings have been the introduction of a vinyl-coated wallpaper to meet consumer demands for an aesthetically pleasing and technically superior wallpaper in the low price area.

Another important development program during 1976 resulted in the formulation of a completely new totally lead free Universal Colorant system. These colorants were specifically formulated for use with Color Your World paint products. A careful selection of the most advanced pigments available permit rapid, accurate and consistent reproducible tinting of high-hiding, ultra-deep colors, clear pastel colors, as well as muted colors of any desired strength or hue. This flexibility and versatility of our new Colorant system will enable us to adapt to any foreseeable color trends and fashions with minimal development costs. Cost savings will also be effected through complete in-house production of these products and will provide our factory and stores with the best co-ordinated and up-to-date tinting system available anywhere.

In addition to these extensive research programs, the development and introduction of new and improved paint products has continued to be a high priority in our company to meet technological advancements, effect cost



savings and ensure that Tonecraft maintains its competitive edge in the market place. A new Concrete and Masonary wall paint designed to waterproof interior or exterior walls has found many uses and our premium quality Exterior Latex Stain has been well received by both the consumer and professional painter.

Tonecraft's retail outlets marketing under the Color Your World trademark and name are generally located on high traffic thoroughfares, near major shopping centres and are serviced by company controlled parking areas, adjacent to stores for better customer sales and service. The exterior of the stores with their high impact sign graphics create immediate high awareness of the Color Your World name.



The interior of our stores are brightly lit and clean and are geared to a predominantly self-service approach to merchandising our products. Our stores carry an in-depth variety of products in the home decorating field thus enhancing our retail image as a speciality operation offering "one stop" shopping in home decorating. Our self-service approach is enhanced by strong in-store informational merchandising displays and consumer give-away informational booklets and is balanced with a strong in-store "do-it-yourself" expert staff to create optimum customer service at low cost.

To further improve our in-store self-service merchandising concept a store refurbishing programme was begun in 1976. New self-feeding wallpaper display units were exclusively designed for our own Color Your World wallcoverings to allow efficient customer selection.

In the area of paint merchandising a new and unique in-store paint color selector bar was designed to allow for multiple customer color selection. New paint and wallcovering information signing has also been incorporated within our store design for customer edification and paint and wallpaper selection.

Additional graphic signing and displays also constantly remind our customers of our high quality, low price posture.

During 1976 we further increased the awareness of the Color Your World brand name products and retail outlets through



an active advertising program which involved all major radio and newspaper media across Canada. Our very heavy campaign with its hard hitting consumer approach strengthened our position as Canada's leading paint and wallpaper manufacturer and retail chain. This approach combined with an on-going educational program at store level and through participation in numerous home shows in major markets, continued to reinforce Color Your World as Canada's best paint and wallpaper buy.



# Tonecraft Limited

Financial Highlights	Thousands of dollars									
	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Gross Revenue	\$27,851	\$21,940	\$18,647	\$15,066	\$12,532	\$11,401	\$10,326	\$9,525	\$7,498	\$6,267
Net earnings before taxes	1,861	1,608	1,870	1,576	1,268	1,096	909	1,000	814	715
Net earnings after taxes	1,006	918	931	818	651	549	437	476	398	351
Earnings per common share*	0.71	0.65	0.66	0.58	0.46	0.39	0.31	0.36	0.32	0.29
Dividends per common share*	0.11	0.08	0.08	0.08	0.08	0.067	0.067	0.067	0.067	0.067
Working capital	1,364	185	324	648	1,527	1,446	1,071	1,425	599	1,142
Depreciation	691	524	473	479	395	317	226	110	72	57
Total assets	23,335	21,217	17,667	12,764	9,471	9,157	8,243	6,698	4,833	2,981
Shareholders equity	7,302	6,451	5,646	4,828	4,413	3,866	4,087	3,423	2,644	2,037
Number of common shares outstanding, year end	1,415,200	1,415,200	1,415,200	1,415,200	1,415,200	471,731	466,004	446,264	412,814	399,114

\*Adjusted to show comparison per share after 3 for 1 stock split. (September 1972)  
 1975 and comparative figures have been restated to reflect the adjustment arising from the change in the method of allocating overhead to inventories at December 31, 1975.

**Tonecraft Limited**  
(Incorporated under The Laws of Ontario)

**Consolidated Balance Sheet as at December 31, 1976**

		Thousands of Dollars	
		1976	1975
Current assets	Cash	\$ 15	\$ 11
	Accounts receivable	2,075	2,302
	Income taxes recoverable		530
	Inventories (note 2)	6,645	5,498
	Prepaid expenses	217	239
Total current assets		8,952	8,580
Fixed assets	Land, buildings and equipment, at cost (note 3)	17,463	15,254
	Less accumulated depreciation	3,282	2,617
		14,181	12,637
Deferred expenses, less amortization		202	
		\$23,335	\$21,217
Fixed assets and long term lease commitments (notes 5 and 6)			

**Auditor's Report**

To the  
Shareholders of  
Tonecraft Limited

We have examined the consolidated balance sheet of Tonecraft Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.



		Thousands of Dollars	
		1976	1975
Current liabilities	Bank advances and acceptances	\$5,069	\$ 5,218
	Accounts payable and accrued liabilities	1,985	2,268
	Deferred revenue	17	34
	Income and other taxes payable	408	167
	Principal due within one year on non-current liabilities	109	708
	Total current liabilities	7,588	8,395
Non-current liabilities (note 4)		7,109	5,374
Deferred income taxes		1,336	997
Capital stock			
	Authorized		
	1,615,588 common shares without par value		
	Issued		
	1,415,200 common shares	1,276	1,276
Retained earnings		6,026	5,175
Total shareholders equity		7,302	6,451
		\$23,335	\$21,217
Approved by the board			

B. F. Strongman, Director

W. M. Strongman, Director

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada, February 1, 1977

Thorne Riddell & Co.  
Chartered Accountants

Tonecraft Limited

Consolidated Statement of Earnings

Year ended December 31, 1976

	Thousands of Dollars	
	1976	1975
Gross operating revenue	\$27,851	\$21,940
Cost of goods sold and direct expenses	17,569	13,884
Gross profit	10,282	8,056
Operating expenses other than interest	7,163	5,400
Interest on non-current liabilities	749	551
Other interest	509	497
	8,421	6,448
Income before income taxes	1,861	1,608
Income taxes		
Current	516	288
Deferred	339	402
	855	690
Net income	\$ 1,006	\$ 918
Earnings per common share	\$ .71	\$ .65

Consolidated Statement of Retained Earnings

Year ended December 31, 1976

	Thousands of Dollars	
	1976	1975
Balance at Beginning of Year	\$5,175	\$4,370
Net Income	1,006	918
	6,181	5,288
Dividends on common shares	155	113
Balance at End of Year	\$6,026	\$5,175



# Tonecraft Limited

## Consolidated Statement of Changes in Financial Position

Year ended December 31, 1976

		Thousands of Dollars	
		1976	1975
Working capital derived from	Operations	\$2,038	\$1,867
	Term bank loans	500	675
	Mortgage proceeds	1,438	971
	Proceeds from sale of land, buildings and equipment	72	117
		4,048	3,630
Working capital applied to	Additions to land, buildings and equipment	2,296	2,936
	Dividends on common shares	155	113
	Reduction of non-current liabilities	203	720
	Deferred expenses	215	
		2,869	3,769
Increase (decrease) in working capital		1,179	(139)
Working capital at beginning of year		185	324
Working capital at end of year		\$1,364	\$ 185

Notes to Consolidated Financial Statements

Year ended December 31, 1976

1. Summary of Accounting Policies

The principal accounting policies followed by Tonecraft Limited and subsidiary companies are set out below. These policies are in accordance with generally accepted accounting principles consistently applied.

(a) Principles of consolidation

The consolidated financial statements include the accounts of all subsidiary companies of which Tonecraft (B.C.) Limited is the principal operating subsidiary.

(b) Inventories

Raw materials are valued at the lower of cost and replacement cost. Tonecraft manufactured products and resale merchandise are valued at the lower of cost and net realizable value. Cost has been determined on a first-in, first-out basis.

(c) Deferred expenses

The company has deferred the wallpaper product development costs in 1976. In prior years these costs have been expensed as incurred since the effect on income, after taking into consideration government grants, has not been material. These costs will be amortized over a period not exceeding three years.

(d) Depreciation

Effective January 1, 1974, depreciation is calculated on a straight line basis. Prior to 1974 it was calculated on a diminishing balance basis.

The straight line rates adopted are substantially based on the following estimated useful lives:

Buildings	40 years
Equipment other than undernoted	15 years
Data processing equipment	10 years
Rotogravure cylinders	3 years
Leasehold improvements	the lease term



# Tonecraft Limited

## Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1976

### 2. Inventories

	Thousands of dollars	
	1976	1975
Raw materials	\$1,441	\$1,331
Tonecraft manufactured products	4,177	3,187
Resale merchandise	1,027	980
	<u>\$6,645</u>	<u>\$5,498</u>

### 3. Land, Buildings and Equipment

	Thousands of dollars			
	1976		1975	
	Cost	Accumulated depreciation	Net	Net
Land	\$ 3,633		\$ 3,633	\$ 3,340
Buildings	7,379	\$ 901	6,478	5,423
Equipment	5,917	2,205	3,712	3,019
Leasehold improvements	468	176	292	234
Facilities under construction	66		66	621
	<u>\$17,463</u>	<u>\$3,282</u>	<u>\$14,181</u>	<u>\$12,637</u>

### 4. Non-current Liabilities

	Thousands of dollars	
	1976	1975
Term bank loans* (at a rate which is fixed in relation to bank prime)	\$3,034	\$3,082
7¼ % to 12¼ % Mortgages payable (a weighted average of 10.4 %)	3,934	2,676
Mortgages payable to directors at 11 %	250	250
Notes payable at ¾ % over bank prime		67
Other loans payable		7
	<u>7,218</u>	<u>6,082</u>
Less principal included in current liabilities	109	708
	<u>\$7,109</u>	<u>\$5,374</u>

# Tonecraft Limited

## Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1976

### 4. Non-current Liabilities (cont'd)

Principal due within the next five years is as follows:

1977	\$ 109,000
1978	761,000
1979	1,076,000
1980	1,230,000
1981	1,260,000

\*The term bank loans are demand loans, repayable on specific terms up to 1983.

### 5. Fixed Asset Commitments

The companies are committed to a further investment in plant and store facilities of \$328,300 at December 31, 1976.

### 6. Long Term Leases

The companies have commitments under leases with an initial term greater than five years covering retail store locations, certain of which are sub-leased to associate dealers. The aggregate minimum rentals exclusive of occupancy costs under leases with an initial term greater than five years are as follows for each of the periods shown:

For the year:

1977	\$ 336,000
1978	343,000
1979	371,000
1980	359,000
1981	368,000

For the five years ending:

1986	1,671,000
1991	957,000
1996	422,000
2001	144,000

\$4,971,000

### 7. Anti-inflation Act

With respect to the payment of dividends, the company is subject to and has complied with the Anti-inflation Act from October 14, 1975.

### 8. Other Statutory Information

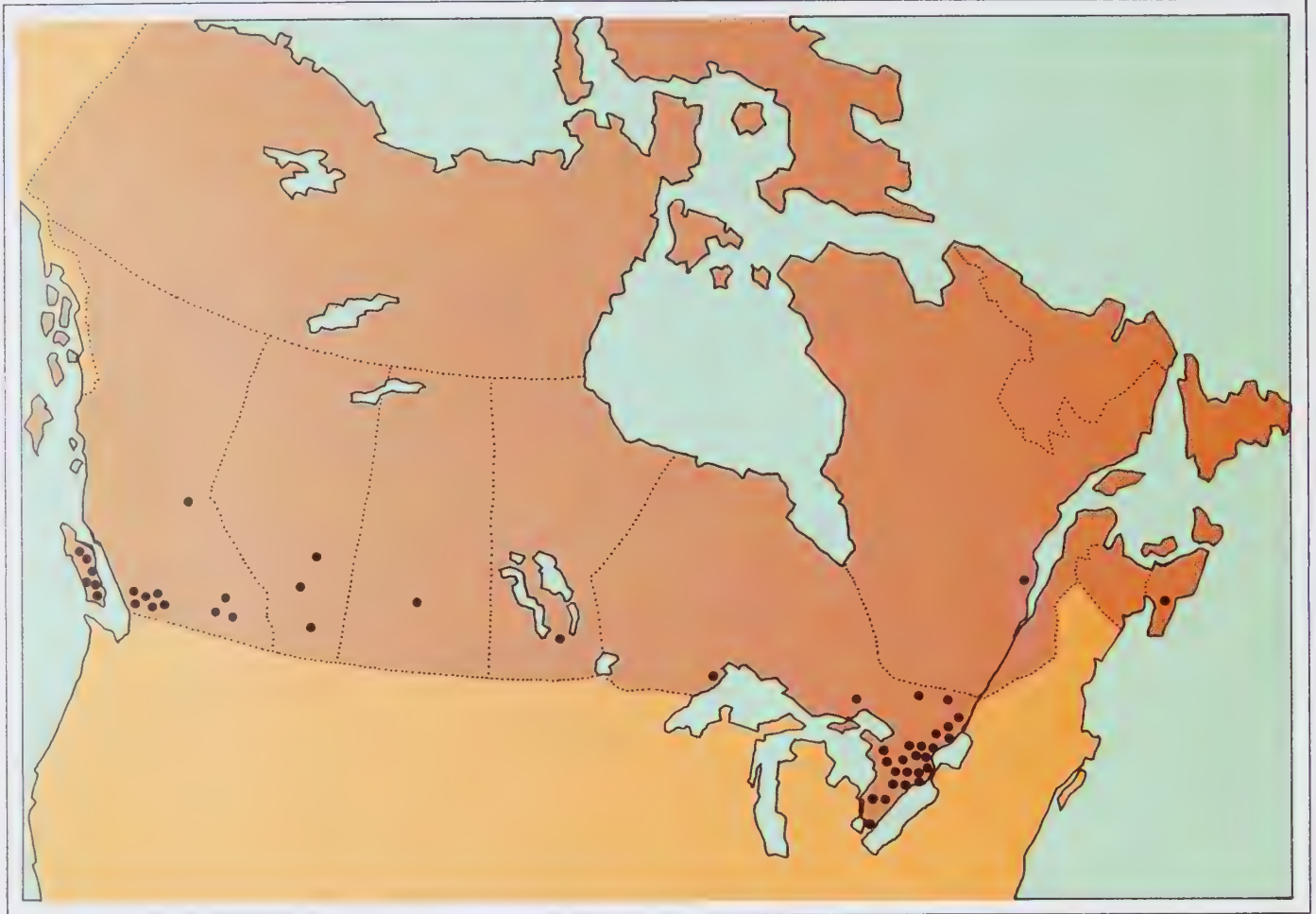
	1976	1975
Depreciation	\$691,000	\$524,000
Amortization	13,000	23,000
Remuneration of directors and senior officers	325,000	304,000



# Tonecraft Limited

Board of Directors and Officers	D.R. Strongman, Chairman of the Board W.M. Strongman, President B.F. Strongman, Executive Vice-President & Secretary-Treasurer W.G. Strongman, Vice-President W.P. Strongman, Vice-President J.F. McCallum W.G. Reid P.D. Wendling
Other Executives	W. Kenwright, Vice-President—Corporate Development J.A. Tozer, Vice-President—Marketing J.L. Bennett, Vice-President—Manufacturing R.E. Townsend, Vice-President—Operations
Transfer Agent and Registrar	Montreal Trust Company
Auditors	Thorne Riddell & Co.
Solicitors	Harries, Houser
Bankers	Canadian Imperial Bank of Commerce
Listing	Toronto Stock Exchange

# Canada's Largest Paint and Wallpaper Retail Chain



Dartmouth N.S. Halifax, N.S. ● Montreal, P.Q. Barrie, Ont. Belleville, Ont. Brampton, Ont. Brantford, Ont. Burlington, Ont. Cambridge, Ont. Chatham, Ont. Guelph, Ont.	● Hamilton, Ont. Kingston, Ont. Kitchener, Ont. Lindsay, Ont. ● London, Ont. Niagara Falls, Ont. Orangeville, Ont. Oshawa, Ont. ● Ottawa, Ont. Owen Sound, Ont. Pembroke, Ont.	Peterborough, Ont. St. Catharines, Ont. Sarnia, Ont. Sault Ste. Marie, Ont. Sudbury, Ont. Thunder Bay, Ont. ● Toronto, Ont. Welland, Ont. Windsor, Ont. Woodstock, Ont.	● Winnipeg, Man. ● Saskatoon, Sask. ● Calgary, Alta. ● Edmonton, Alta. Lethbridge, Alta. Burnaby, B.C. Campbell River, B.C. Clearbrook, B.C. Coquitlam, B.C. Courtenay, B.C. Duncan, B.C.	Kamloops, B.C. Kelowna, B.C. Langley, B.C. Nanaimo, B.C. Prince George, B.C. Richmond, B.C. ● Vancouver, B.C. ● Victoria, B.C.
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● Multiple Outlet Locations

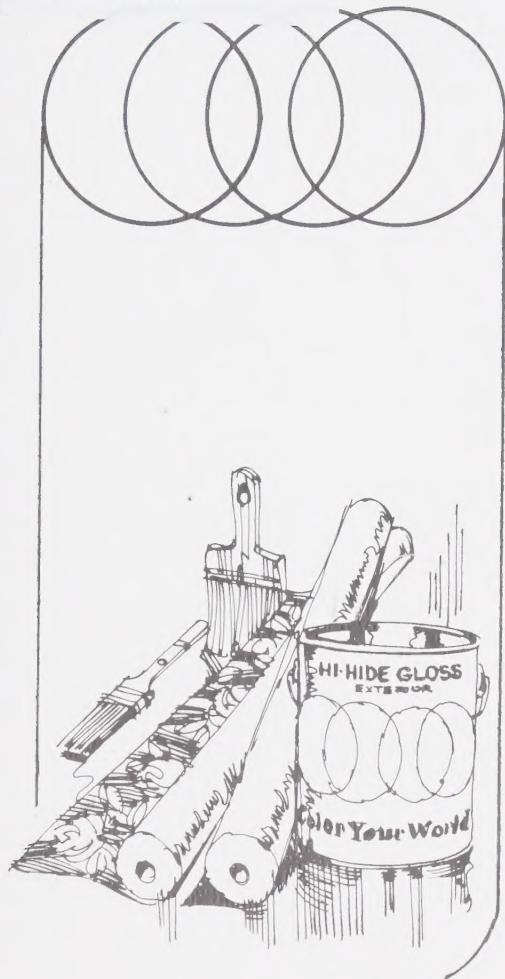




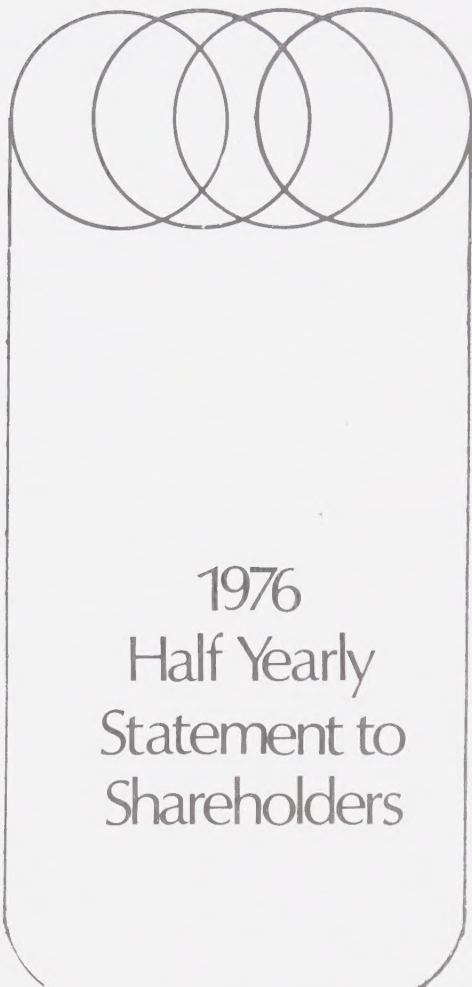




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**TONECRAFT  
LIMITED**



1976  
Half Yearly  
Statement to  
Shareholders

**TONECRAFT  
LIMITED**

# TONECRAFT LIMITED

## 1976 Half Yearly Statement to Shareholders

Your Directors have declared a dividend for the quarter ended June 30, 1976 of 3 cents (3¢) per share on the Capital Stock of the Company payable August 17, 1976, to shareholders of record August 3, 1976.

During this quarter gross operating revenues have continued to show strong increases over the same period for 1975. Gross operating revenues have increased by 31.8% from \$9,949,066 in 1975 to \$13,107,743 in 1976.

Earnings for the six month period were \$310,333 or 21.9 cents per share compared with \$310,478 or 21.9 cents per share in the same period for 1975. (1975 earnings have been adjusted for the change in accounting policy with respect to allocation of overhead to inventories as outlined in note 2 of the 1975 Annual Report).

Your Directors are confident that the second half of 1976 will continue to show strong sales and earnings resulting in favourable annual results.

August 3, 1976  
Dividend No. 44

B.F.Strongman  
Executive Vice-President  
and Secretary-Treasurer.

# TONECRAFT LIMITED

## AND SUBSIDIARY COMPANIES

### Consolidated Statement of Profit and Loss

FOR THE SIX MONTHS ENDED JUNE 30, 1976  
(With comparative figures for 1975)

	1976	1975
Sales	13,107,743	9,949,066
Cost of Goods Sold	<u>8,462,433</u>	<u>6,496,974</u>
Gross Profit	4,645,310	3,452,092
Operating Expenses	<u>3,556,525</u>	<u>2,463,837</u>
Profit from Operations	1,088,785	988,255
Provision for Depreciation	333,881	236,831
Remuneration of Directors and Senior Officers	<u>134,238</u>	<u>130,468</u>
Net Operating Profit	620,666	620,956
Provision for Taxes	<u>310,333</u>	<u>310,478</u>
Net Profit for Period	<u><u>310,333</u></u>	<u><u>310,478</u></u>
No. of Shares Outstanding	1,415,200	1,415,200
Earnings per share	21.9¢	21.9¢

(Note: 1975 earnings have been adjusted for the change in accounting policy with respect to allocation of overhead to inventories as outlined in note 2 of the 1975 Annual Report).



# **TONECRAFT LIMITED**

AND SUBSIDIARY COMPANIES

## Statement of Source and Application of Funds

SIX MONTHS ENDED JUNE 30, 1976

(With comparative figures for 1975)

SOURCE OF FUNDS:	1976	1975
Operations		
Net Income for Period	310,333	310,478
Items not involving a		
Current Outlay of Funds:		
Depreciation and Amortization	333,881	236,831
	<u>644,214</u>	<u>547,309</u>
Long Term Loans	-----	231,872
Mortgage Proceeds	1,592,693	221,305
Increase in Non-Current Portion		
of Liabilities	30,856	133,760
Sales of Fixed Assets	53,155	-----
Decrease in Deferred Expenses	-----	18,975
	<u>2,320,918</u>	<u>1,153,221</u>
APPLICATION OF FUNDS:		
Fixed Assets Additions	1,587,221	1,381,627
Dividend Payments	70,760	56,608
Mortgage Payments	307,747	151,621
Other Loan Payments	31,275	17,600
Increase in Deferred Expenses	117,757	-----
	<u>2,114,760</u>	<u>1,607,456</u>
Increase (Decrease) in Working		
Capital	206,158	(454,235)
Working Capital January 1	<u>184,328</u>	<u>323,760</u>
	<u>390,486</u>	<u>(130,475)</u>

(Note: 1975 figures have been adjusted for the change in accounting policy with respect to allocation of overhead to inventories as outlined in note 2 of the 1975 Annual Report).